

Audit Report



INVENTORY MANAGEMENT OF NAVY FLEET HOSPITALS
BY THE FLEET HOSPITAL SUPPORT OFFICE,
CHEATHAM ANNEX, VIRGINIA

Report No. D-2000-191

September 22, 2000

Office of the Inspector General
Department of Defense

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Acronyms

DEPMEDS	Deployable Medical Systems
DFAS	Defense Finance and Accounting Service
FH	Fleet Hospital
FHPO	Fleet Hospital Program Office
FHSO	Fleet Hospital Support Office
SLEP	Service Life Extension Program
STARS	Standard Accounting and Reporting System
TAMMIS	Theater Army Medical Management Information System
USD(Comptroller)	Under Secretary of Defense (Comptroller)

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INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

September 22, 2000

MEMORANDUM FOR NAVAL INSPECTOR GENERAL

SUBJECT: Audit Report on Inventory Management of Navy Fleet Hospitals by the
Fleet Hospital Support Office, Cheatham Annex, Virginia
(Report No. D-2000-191)

We are providing this report for information and use. The report is the second in a series issued on the Navy Fleet Hospital Program. We considered management comments on a draft of this report in preparing the final report.

The Navy comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Michael A. Joseph at (mjoseph@dodig.osd.mil) or Mr. Michael F. Yourey at (myourey@dodig.osd.mil) (757) 766-2703. See Appendix C for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink, reading "Robert J. Lieberman", is positioned above the typed name.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2000-191

September 22, 2000

Project No. D1999LF-0031

(Formerly Project No. 9LF-0093.01)

Inventory Management of Navy Fleet Hospitals by the Fleet Hospital Support Office, Cheatham Annex, Virginia

Executive Summary

Introduction. Deployable medical systems are standardized modular field hospitals that can be pre-positioned in the event of a contingency, national emergency, or war operations. The Navy maintains 10 pre-positioned, 500-bed fleet hospitals in its deployable medical systems inventory. Eight of the hospitals are pre-positioned throughout the world. The fleet hospitals are containerized and equipped with biomedical devices such as anesthesia apparatus, monitor-recorder electrocardiographs, and visual ultrasonic apparatus. Each fleet hospital requires about 450 containers for storage. The annual budget for maintaining 10 Navy fleet hospitals is about \$23 million. The 10 fleet hospitals contain a reported \$236 million of material.

The Naval Fleet Hospital Program Office was a detachment of the Naval Supply Systems Command until October 1, 1999. On October 1, 1999, the office was transferred to the Navy Bureau of Medicine and Surgery.

Objectives. The overall audit objective was to determine whether the Navy Fleet Hospital Program is based on requirements necessary to support DoD operations plans. For this audit we reviewed inventory management of the Fleet Hospital Support Office at Cheatham Annex, Virginia. We also reviewed the management control program as it related to inventory management, the rebuild process, and unliquidated obligations.

Results. The Fleet Hospital Support Office did not properly manage its approximate \$108 million inventory warehoused at Cheatham Annex, Virginia. Improved inventory management will help ensure excess inventory is identified, only needed purchases are made, and Government material is protected from potential misappropriation. Identifying excess material will allow DoD to put about \$13.3 million of assets to better use and improve the service life extension program (finding A).

The Fleet Hospital Support Office fielded two fleet hospitals without key pieces of equipment. Key pieces of equipment included items such as X-ray apparatus, suture devices, and ventilators. Improving the hospital rebuild process will enhance Navy ability to provide medical care for expected casualties in operations plans (finding B).

The Fleet Hospital Support Office did not properly manage \$8.8 million of FY 1999 unliquidated obligations (obligation for which there have been no payments). We reviewed \$1.9 million of the reported \$8.8 million in unliquidated obligations and

found that \$1.8 million were not valid unliquidated obligations. By reconciling unliquidated obligation balances, the Fleet Hospital Support Office can better portray its financial position and possibly can free up funds by canceling invalid obligations (finding C).

During the audit, a change in Commanding Officers at the Fleet Hospital Support Office took place. The new Commanding Officer took many steps that should improve management controls over both the inventory and hospital rebuild process. Specifically, the new Commanding Officer halted all fleet hospital rebuilds, conducted a wall-to-wall inventory, implemented a reorganization plan, and began a reconciliation of unliquidated obligations.

For details of the audit results, see the Finding section. For details of the management control program, see Appendix A.

Summary of Recommendations. We recommend that the Commanding Officer, Fleet Hospital Support Office, establish management controls that will ensure accountability of inventory. We also recommend the Fleet Hospital Support Office perform causative research on discrepancies identified as a result of the wall-to-wall inventory. In addition, we recommend the Fleet Hospital Support Office establish management controls to ensure fleet hospitals are not fielded with material shortages, and perform mini-service life extension programs and ship follow-on containers with material to satisfy shortages in Fleet Hospitals 20 and 21. Further, we recommend the Fleet Hospital Support Office establish management controls that require reconciliation of unliquidated obligations with Defense Finance and Accounting Service payments and with Theater Army Medical Management Information System cancellation, purchase order, and receipt information.

Management Comments. The Principal Deputy, Office of the Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred with the recommendations. The Fleet Hospital Support Office has established management controls to ensure inventory accountability and to identify excess inventory. Additionally, the Fleet Hospital Support Office has performed causative research on discrepancies identified by its wall-to-wall inventory. The Fleet Hospital Support Office developed a production planning and management program that coordinates departmental and contractor activities to ensure the fleet hospitals are not fielded with shortages and is working to satisfy shortages in Fleet Hospitals 20 and 21. Finally, the Fleet Hospital Support Office completed a reconciliation of its unliquidated obligations and has established management controls to reconcile unliquidated obligations on a monthly basis in the future. See the Finding section for a discussion of management comments and the Management Comments section for a complete text of the management comments.

Audit Response. The Navy comments are fully responsive. We commend the Navy and especially the Commanding Officer, Fleet Hospital Support Office, for the prompt and aggressive actions to resolve problems identified during the audit.

Table of Contents

Executive Summary	i
Introduction	
Background	1
Objectives	2
Findings	
A. Fleet Hospital Inventory Management	3
B. Hospital Rebuild Process	7
C. Reconciliation of Unliquidated Obligations	12
Appendixes	
A. Audit Process	
Scope and Methodology	15
Management Control Program	17
B. Prior Coverage	19
C. Report Distribution	20
Management Comments	
Department of the Navy	22

Background

Deployable Medical Systems. Deployable Medical Systems (DEPMEDS) are standardized modular field hospitals that can be pre-positioned in the event of a contingency, national emergency, or war operations. DEPMEDS increase the capabilities of the Military Departments for providing adequate care to deployed forces. DEPMEDS use shipping containers for self-contained hospital facilities such as pharmacies, radiology laboratories, and surgery clinics.

Responsibility for Navy Fleet Hospitals. The Fleet Hospital Program Office (FHPO), located at Fort Detrick, Maryland, provides overall program management of the fleet hospitals (FHs). The Fleet Hospital Support Office (FHSO), Cheatham Annex, Virginia, manages the inventory and performs repair and maintenance on FHs. Effective October 1, 1999, the FH program management and operations transferred from the Naval Supply Systems Command to the Navy Bureau of Medicine and Surgery.

Navy DEPMEDS. Navy DEPMEDS are FHs that are containerized deployable medical systems assembled into 500-bed hospitals. Each FH contains an estimated \$23.6 million of material. The FHs include biomedical devices such as anesthesia apparatus, monitor-recorder electrocardiographs, and visual ultrasonic apparatus. Each FH requires about 450 storage containers. The FHs are designed to treat casualties of dual major theater wars. With an annual budget of \$23 million, the Navy maintains readiness for 10 pre-positioned FHs by rebuilding 2 hospitals a year. The remaining eight FHs are pre-positioned throughout the world.

Each FH is scheduled for regular repair and maintenance at 5-year intervals. This schedule is referred to as the service life extension program (SLEP). To accomplish the SLEP, the FHSO uses "build-to" and "as-built" reports. Build-to reports show the equipment and supplies currently approved for use in the FH; as-built reports show actual equipment and supplies in each FH. As items on the as-built report become outdated or are no longer required, they are deleted from the build-to report. However, these items remain in the FH until it is brought to Cheatham Annex for repair and maintenance. For purposes of this report, the outdated and no-longer-required items are referred to as "deleted" items.

Fleet Hospital Relocation. As a result of a 1995 Base Realignment and Closure decision, the FHSO moved in October 1998 from Alameda, California, to Cheatham Annex, Virginia. During the survey phase of a prior DEPMEDS audit, we visited Alameda. FHSO personnel informed us that because of the closure of Alameda, a physical inventory would be performed. Excess inventory would be disposed of rather than transferred to Cheatham Annex.

Rebuild and Warehouse Responsibility. A contractor performs SLEP and warehousing functions for the FHs. During the period the FH function was located in Alameda, Management Consulting, Incorporated, performed SLEP and warehousing responsibilities. The current contractor at the Cheatham Annex facility is DynCorp Enterprise Management. Both contractors were responsible for general warehouse management.

Fleet Hospital Information System. The FHSO uses the Theater Army Medical Management Information System (TAMMIS) to manage the inventory and SLEP at Cheatham Annex. TAMMIS was designed to improve accuracy, resolution, and timeliness of information for medical and combat Service commanders about the status of medical equipment and supplies, medical units, and patients. TAMMIS subsystems—Medical Supply and Medical Assemblage Management—support logistics and the SLEP at the FHSO.

The Medical Supply subsystem processes material requisitions, purchase orders, and receipts. The Medical Supply subsystem also aids with inventory management by helping track physical inventories and quality control reviews. The user can access status and transaction histories, build and update support files and perform system maintenance, review exception records, design reports for management use, and manage material release orders. With the Medical Assemblage Management subsystem, the user can manage and design an assembly process for the FH, expedite ordering for material shortages, place orders on the correct supply source, record receipts, follow up on aged orders for requirements, and design reports.

Objectives

This is the second in a series of reports on the Navy FH program. The overall audit objective was to determine whether the Navy FH program is based on requirements necessary to support the DoD operations plans. This report discusses the FH inventory management by the FHSO at Cheatham Annex. We also reviewed the management control program as it related to inventory management, the rebuild process, and unliquidated obligations. See Appendix A for a discussion of the audit scope and methodology and the review of the management control program. See Appendix B for prior coverage.

A. Fleet Hospital Inventory Management

The FHSO did not properly manage its approximate \$108 million inventory. Inventory management can be improved by establishing management controls to ensure the performance of periodic physical inventories, and identification and disposal of excess material. Improved inventory management will assist the FHSO to ensure that excess inventory is identified and turned in for reuse or disposal, only needed purchases are made, and misappropriated material is detected. During the audit, a new Commanding Officer reported to the FHSO. The new Commanding Officer initiated corrective actions and worked closely with the audit staff to resolve the issues. Excess inventory identified as a result of the audit will allow DoD to put \$13.3 million in assets to better use.

Inventory Management. The FHSO did not properly manage its approximate \$108 million inventory that is used to perform the SLEP on FHs. We attempted to reconcile the inventory that was on hand before the FHSO moved to Cheatham Annex with the inventory on hand as of September 1999. However, we could not reconcile the inventory balances because the FHSO changed information systems when the office moved. Because of this change, we could not obtain accurate or complete historical information on purchase orders, issues, and receipts. Based on concerns of the FHSO personnel, we reviewed 53 of the 716 containers of general inventory to determine whether inventory in the containers was recorded in TAMMIS. Our review showed that 17 of the 53 containers were not recorded in TAMMIS.

In October 1999, a new Commanding Officer was assigned to the FHSO. We briefed him about our concerns regarding inventory management at FHSO. He quickly recognized there were significant inventory integrity problems and aggressively sought to resolve the problems. In December 1999, the Commanding Officer stopped all SLEP activity to conduct a wall-to-wall inventory of the warehouse and 716 containers of general inventory. According to TAMMIS, the value of the on-hand inventory subject to the wall-to-wall inventory was approximately \$108 million. The wall-to-wall inventory was completed on April 14, 2000. The value of the material counted during the wall-to-wall inventory was \$97 million. The difference between the book value and the wall-to-wall inventory was \$11 million. The FHSO is in the process of reconciling the line-item discrepancies making up the \$11 million difference. Naval Supply Systems Command Instruction 4440.115G, "Physical Inventory Program," April 25, 1994, requires causative research on unresolved physical inventory adjustments equal to or greater than \$2,500. The FHSO needs to perform causative research on the \$11 million difference and report identified losses on DD 200, "Financial Liability Investigation of Property Loss," as required by Instruction 4440.115G.

Physical Inventories. The FHSO can improve its inventory management by establishing management controls to ensure that the contractor performs the required periodic physical inventories and the FHSO quality assurance organization performs periodic checks of inventory balances. Physical inventories were not performed upon termination of the contract at Alameda or at the start of the follow-on contract at Cheatham Annex. The Federal Acquisition Regulation part 45.508.1 states:

(a) General. Immediately upon termination or completion of a contract, the contractor shall perform and cause each subcontractor to perform a physical inventory, adequate for disposal purposes, of all Government property applicable to the contract, unless the requirement is waived as provided in paragraph (b) of this section.

(b) Exception. The requirement for physical inventory at the completion of a contract may be waived by the property administrator when the property is authorized for use on a follow-on contract, provided, that

(1) Experience has established the adequacy of property controls and an acceptable degree of inventory discrepancies; and

(2) The contractor provides a statement indicating that record balances have been transferred in lieu of preparing a formal inventory list and that the contractor accepts responsibility and accountability for those balances under the terms of the follow-on contract.

The contracts with both Management Consulting, Incorporated, and DynCorp Enterprise Management required physical inventory of all Government property. However, no records were available to verify that Management Consulting, Incorporated, had in fact performed periodic inventories. Further, DynCorp Enterprise Management did not conduct periodic inventories as required.

In October 1998, DynCorp Enterprise Management accepted the inventory of material stored in 1,051 sealed containers transferred from Alameda. DynCorp Enterprise Management, however, did not attest to the accuracy of inventory records. To ensure accountability of inventory, the property control plan states that verification of the inventory would occur when the seal on any container was broken. The primary objective for verifying inventory was to determine whether TMMIS records matched inventory on hand. Of the 1,051 sealed containers, DynCorp Enterprise Management opened about 335 containers from October 1998 through October 1999 to use in rebuilding FH 20 and FH 21. However, the contractor did not verify the accuracy of TMMIS records because the previous Commanding Officer allowed the contractor to use the material without reconciling with TMMIS. Further, the Quality Assurance Branch at the FHSO did not perform or review any physical inventories. We believe that the Quality Assurance Branch at the FHSO needs to be involved in ensuring that on-hand inventory balances are accurate and the contractor performs accurate periodic inventories.

Excess Inventory. The FHSO can further improve inventory management by establishing management controls that ensure identification and disposal of excess inventory. On September 30, 1999, we requested a list of excess inventory; however, the FHSO could not provide the information. By querying TAMMIS, we found that only 25 of 8,600 line items were coded as excess. We then compared the on-hand inventory to FH rebuild requirements, linkages (primary versus substitute items), and the deleted item list. Of the 8,600 line items, about 3,600 line items, valued at about \$46 million, exceeded FH requirements. The FHSO personnel maintained a list showing items no longer required in the FHs; however, the FHSO did not use the list to identify excess inventory in TAMMIS.

In October 1999, we briefed the new Commanding Officer, FHSO, about the potential excess inventory issue. During the wall-to-wall inventory, the FHSO identified \$40.7 million of excess material. We did not determine the reason for the approximate \$6 million difference between what we identified as excess and material the FHSO identified because of timing differences and inventory inaccuracies. Of the \$40.7 million of excess material the FHSO identified, about \$13.3 million was turned in to DoD for reuse by other organizations. The remaining \$27.4 million was turned in for disposal. We did not attempt to determine if there were any warehouse cost reductions associated with the inventory reduction. However, in the past, the FHSO did not have enough warehouse space to download an entire hospital and was forced to download only those containers undergoing a SLEP. The warehouse space that resulted from excessing the \$40.7 million of material should assist the FHSO with downloading all containers before rebuilding an FH, allowing the FHSO to better identify material shortages and requirements and possibly avoid unneeded purchases.

Conclusion. The actions the new Commanding Officer, FHSO, is taking, along with full implementation of the recommendations, should significantly improve management controls over inventory. The improved management controls will assist the FHSO to identify and dispose of excess material. Maintaining accurate inventory records will prevent the FHSO from making purchases of material when sufficient quantities are on hand as well as provide an opportunity to detect potential misappropriation or mismanagement of Government material.

Recommendations, Management Comments, and Audit Response

A. We recommend that the Commanding Officer, Fleet Hospital Support Office:

- 1. Establish management controls to ensure:**
 - a. Accountability of recorded inventory, by performing annual and periodic wall-to-wall inventories.**

Management Comments. The Navy concurred with the recommendation. The FHSO has established management control procedures to ensure accountability of inventory and performance of timely and accurate periodic inventories. Specific responsibilities and procedures will be documented in FHSO Instruction 4440.2, "FHSO Inventory Control," by September 30, 2000.

b. Excess inventory is identified in Theater Army Medical Management Information System and appropriate disposal action taken.

Management Comments. The Navy concurred with the recommendation. The FHSO established a continuous excessing program to ensure that materials no longer required for future SLEPs will be excessed in a timely manner. Responsibilities and procedures for the program will be documented in FHSO Instruction 4440.2 by September 30, 2000.

Audit Response. The Navy comments are fully responsive. We commend the Commanding Officer, FHSO, for the prompt and aggressive action taken to establish management controls to ensure accountability of recorded inventory and identification and disposal of excess inventory.

2. Perform causative research on discrepancies identified by the wall-to-wall inventory and prepare DD 200, "Financial Liability Investigation of Property Loss," as required.

Management Comments. The Navy concurred with the recommendation. The FHSO is conducting causative research on the discrepancies and expects to prepare a DD 200, "Financial Liability Investigation of Property Loss," by September 30, 2000.

B. Hospital Rebuild Process

Two FHs were fielded without key items. The hospital rebuild process can be improved by establishing management controls that:

- specify responsibilities for identifying and resolving shortages,
- require Supply Department personnel to follow up on unfilled user requisitions, and
- verify TAMMIS shortage reports are accurate and fully used.

By improving the hospital rebuild process, the Navy will enhance its ability to provide medical treatment for expected casualties in operational plans. The new Commanding Officer initiated actions that should improve the hospital rebuild process.

Key Items. The FHSO fielded two FHs that were short key items. We reviewed shortage reports for FH 20 and FH 21 that the FHSO rebuilt since relocating to Cheatham Annex. Each FH requires \$23.6 million of material and the February 2, 2000, TAMMIS Detailed Stock Status Report showed FH 20 and FH 21 were short material totaling about \$2.5 million and \$2.8 million, respectively.

We reviewed FHPO memorandum, "Medical Equipment Shortage List for Fleet Hospital 20," July 12, 1999, to the FHSO, which identifies the critical items that were short in FH 20 and the Detailed Stock Status Report, February 2, 2000. From these documents, we determined that five critical items in FH 20 and seven in FH 21 were short. There was no list of critical items short in FH 21, so we relied on the list of critical items short in FH 20. Consequently, there may have been more critical items short in FH 21. We judgmentally selected a few other important items short in FH 20 and FH 21. For purposes of this report, critical and important items are referred to as key items. The table shows examples of key items that were short in FH 20 and FH 21, based on TAMMIS inventory reports as of February 2, 2000. Note, however, that all shown shortages may not be correct because of TAMMIS inaccuracies discussed later in this report.

**Examples of Key Items Short in FH 20 and FH 21
as of February 2, 2000**

<u>Item</u>	<u>Critical Per FHPO</u>	<u>Quantity Required</u>	<u>Shortages</u>	
			<u>FH 20</u>	<u>FH 21</u>
Anesthesia gas		6	0	6
Chemical protective suit		100	0	100
Crash cart	X	27	0	2
Defibrillator support kit		15	15	15
Endoscopic light		10	2	0
Flow rate 48 regulator		22	22	22
Intravenous infusion pump		22	18	0
Intravenous injection		1,056	1,056	1,039
Mobile X-ray	X	3	2	0
Monitor support kit		68	68	68
Surgical light	X	13	9	13
Surgical suction	X	24	2	4
Ventilator	X	6	6	0
Ventilator (portable)	X	24	14	22
Volume ventilator	X	24	0	8
X-ray apparatus	X	2	0	2
X-ray repair part kit		2	2	2
X-ray 50MA	X	3	0	3

The SLEP for FH 20 began in December 1998 at Cheatham Annex and was completed in May 1999. In July 1999, the FHSO loaded about one-third of FH 20 containers onto the U.S. Marine Corps Maritime Prepositioning Force (Enhancement) ship that was pre-positioned afloat. The SLEP for FH 21 began in May 1999 and was completed in November 1999. In April 2000, the FHSO shipped FH 21 overseas for pre-positioning. We found no documentation that the FHSO had taken corrective action to fill the shortages prior to shipping the two FHs. However, as a result of the audit and recognizing the extent of the shortages, the new Commanding Officer, FHSO, planned to perform a mini-SLEP and ship follow-on containers with the material that would satisfy the shortages identified in FH 20 and FH 21.

Organizational Responsibilities and Procedures. The FHSO did not have standard operating procedures in place that outlined organizational responsibilities and procedures for identifying and resolving shortages during and after a SLEP. The Operations Department, which is responsible for monitoring contractor progress during a SLEP, did not have an accurate and complete list of shortages for FH 20 and FH 21. Further, the Supply Department, which satisfies contractor demands (user requisitions) for items not in general inventory by issuing purchase orders, also could not identify the shortages for FH 20 and FH 21. Neither the Operations nor the Supply Departments had standard operating procedures describing key organizational responsibilities and procedures.

During a SLEP, the contractor is also responsible for monitoring FH shortages. The audit staff worked closely with the FHSO to determine shortages for FH 20 and FH 21. In February 2000, the Planning Department determined the shortages for FH 20 and FH 21. To be certain that fielded hospitals meet readiness requirements, the FHSO needs to develop and implement standard operating procedures that detail organizational responsibilities and procedures used to monitor FH shortages during and after a SLEP.

Followup on Unfilled User Requisitions. The FHSO did not have management controls that required Supply Department staff to follow up on unfilled user requisitions. We attempted to determine why FH 20 and FH 21 were short the items shown in the table. We researched each item in TAMMIS, but could not determine the reason for the shortages. At our request, the FHSO also attempted to determine why five of the seven FH 21 critical items shown in the table were short. The FHSO found that for three of the five items, FHSO staff canceled the purchase orders with no explanation as to why. Further, according to the TAMMIS reports, no additional action was taken by the Supply Department to fill the requirements. The remaining two items could have been filled by on-hand inventory, but were not.

Using TAMMIS, we followed up on the status of 19 purchase orders by comparing them to the actual receipt files maintained by the contractor and the Supply Department. Our review showed that 7 of the 19 purchase orders (about 37 percent) were canceled. No supporting documentation showed why the cancellation occurred or if alternative actions were taken to satisfy the requirements. The FHSO needs to develop standard operating procedures that require Supply Department personnel to follow up on unfilled user requisitions using TAMMIS exception reports that show aged and canceled purchase orders. Had the FHSO used exception reports to follow up on unfilled user requisitions, we believe it would have helped identify and resolve shortages of key items in FHs.

TAMMIS Reports. The FHSO did not have management controls to verify TAMMIS was accurate and that personnel knew which TAMMIS reports to use to properly manage the SLEP. TAMMIS did not accurately show material shortages in an FH. According to the TAMMIS user's manual, the Stock Status Summary Report shows the quantity required, the quantity filled, and the resulting shortage or overage for each item in an FH. Similar to the Stock Status Summary Report, the Detailed Stock Status Report could be used to show shortages in material.

The FHSO initially provided us with Stock Status Summary Reports to show shortages in recently fielded FHs. However, because the reports did not link substitute items with the prime item for which the requirement existed, the FHSO had to manually query TAMMIS to determine whether an item was actually short or if a substitute was used to fill the requirement. For example, the TAMMIS Stock Status Summary Report showed material shortages of \$3.4 million for FH 21. The Detailed Stock Status Report that was generated by the contractor reported material shortages of \$2.8 million. According to FHSO staff, the \$600,000 disparity was attributed to TAMMIS not recognizing

linkages between primary and substitute items. The FHSO and the contractor are in the process of fixing TAMMIS so that future Detailed Stock Status Reports and Stock Status Summary Reports will recognize links between primary and substitute items as well as show actual shortages in material.

The FHSO fielded FH 20 and FH 21 with none of the three required mobile X-ray machines, despite the Medical Assemblage Management subsystem reporting that all three critical items were on hand in FH 21 and one was on hand in FH 20. At the same time, the Medical Supply subsystem showed that three mobile X-ray machines were on hand in the warehouse. However, when we physically inventoried the mobile X-ray machines, we found that nine were on hand in the warehouse. We followed up this discrepancy with the contractor and FHSO personnel and determined that six of the nine X-ray machines were removed from general inventory and set aside in the warehouse for FH 20 and FH 21. However, the X-ray machines were not put in FH 20 and FH 21 during the SLEP. Had the FHSO managers used TAMMIS reports to manage FH rebuilds, they would have quickly realized that the reports were inaccurate.

Use of TAMMIS Reports. FHSO managers did not ensure that personnel responsible for managing the SLEP were fully using TAMMIS. Specifically, the FHSO did not develop procedures specifying which TAMMIS reports each division, department, branch, and manager should use to accomplish their mission. Also, the previous Commanding Officer, FHSO, did not emphasize using TAMMIS and allowed personnel to use other unofficial software programs and databases. During the audit, we observed some personnel using an old database instead of the official TAMMIS. We also noticed managers were either unaware or simply not using information in TAMMIS critical to their functional responsibilities. TAMMIS was fielded and implemented before personnel received adequate training. The Commanding Officer, FHSO, informed us that most personnel have now been trained to use TAMMIS.

Management Actions During the Audit. During the audit, the Commanding Officer, FHSO, initiated actions that when fully implemented should significantly improve management controls over the FH rebuild process. Specifically, the Commanding Officer implemented policy changes and proposed a reorganization. The Commanding Officer, FHSO, stated that FHs would not be fielded unless they are 100 percent complete. Using TAMMIS, any exceptions will be identified and tracked to make sure that the FH is operational within required time frames. To help accomplish this, the Commanding Officer developed a reorganization plan that will position the five divisions (formerly referred to as departments) under one of three newly created departments—the Operations, Systems, or Contract Administration Departments. As part of the reorganization, FHSO personnel will no longer work independently of one another and will have increased supervision. For example, instead of Supply Department personnel making purchases and not following up on them, FHSO has created several item manager positions that will monitor all user requests within the new Supply Division. Further, FHSO is drafting standard operating procedures that will delineate responsibilities.

Recommendations and Management Comments

B. We recommend that the Commanding Officer, Fleet Hospital Support Office:

1. Establish management controls to ensure that Fleet Hospitals are not fielded with shortages. At a minimum, the management controls should include written standard operating procedures that:

a. Specify clearly who is responsible for identifying and resolving shortages in Fleet Hospitals and how they will perform their function.

b. Require Supply Division personnel to reconcile unfilled user requisitions on a periodic basis and report the status of the requisitions to personnel responsible for resolving shortages.

c. Require Fleet Hospital Support Office managers to verify that Theater Army Medical Management Information System shortage reports are accurate.

d. Describe how Theater Army Medical Management Information System will be used to manage the service life extension program.

Management Comments. The Navy concurred with the recommendation. The FHSO established a formal SLEP production planning and management program to coordinate departmental and contractor activities. The SLEP procedures and responsibilities will be published in Fleet Hospital Support Office Instruction 6780.1, "Fleet Hospital Service Life Extension Program," by September 30, 2000.

2. Perform mini-service life extension programs and ship follow-on containers with material to satisfy shortages in Fleet Hospitals 20 and 21.

Management Comments. The Navy concurred with the recommendation. The Commanding Officer, FHSO, stated that funding for shortages occurred in FY 2000, and orders were to be completed in August 2000. Assembly and packing will be completed when all material is received.

C. Reconciliation of Unliquidated Obligations

The FHSO did not properly manage its unliquidated obligations (obligation for which there have been no payments). Although Defense Finance and Accounting Service (DFAS) did not provide accurate information on disbursements, FHSO can improve management of its unliquidated obligations by establishing management controls requiring the Financial Management Department to reconcile unliquidated obligations with TAMMIS cancellation, purchase order, and receipt information. By reconciling unliquidated obligation balances, FHSO can reduce the risk of inaccurately portraying its financial position, and possibly can free up funds by canceling invalid obligations.

Required Reviews of Unliquidated Obligations. DoD Regulation 7000.14-R, "Financial Management Regulations," volume 3, "Budget Execution—Availability and Use of Budgetary Resources," December 1996, requires that DoD Components adequately review unliquidated obligations to support the annual certification of obligated balances required by each DoD Component. In a May 14, 1996, memorandum, the Under Secretary of Defense (Comptroller) (USD[Comptroller]) sent out guidance to DoD Components requiring that funds holders review the validity of recorded unliquidated obligations at least three times a year and provide reports to the USD(Comptroller) that the reviews of obligations were conducted or explain why unliquidated obligations cannot be confirmed.¹ Funds holders have that specific responsibility because they initiate actions that cause obligations to be incurred and are in the best position to determine the accuracy and status of such transactions. To accomplish the reviews, funds holders need to aggressively monitor and track the status of their obligations. Although FHSO, as a funds holder, was not responsible for making most of the disbursements of its funds, FHSO should be able to obtain documentation showing whether goods and services for obligations have been received.

Although the Office of the USD(Comptroller) has not finalized the May 14, 1996, guidance on tri-annual reviews of obligations into DoD Regulation 7000.14-R, it issued a draft version for comment that included the guidance in May 2000. Further, the Deputy Comptroller (Program Budget), Office of the USD(Comptroller), reiterated the importance of reviewing obligations in an August 17, 1999, memorandum to DoD Components, which cites the May 14, 1996, memorandum. The Deputy Comptroller also reiterated by memorandum in April 2000 the importance of the tri-annual reviews.

¹USD(Comptroller) Memorandum, "Quarterly Reviews of Commitments and Obligations," May 14, 1996, requires funds holders to review unliquidated obligations of at least \$50,000 for Operation and Maintenance Funds and other operational funds, and obligations of at least \$200,000 for all other funds, three times each year. Obligations that do not meet those criteria should be validated at least annually to substantiate the reliability of year-end budgetary reporting.

Reliability of Unliquidated Obligations. The FHSO was not properly managing its unliquidated obligations. According to the Standard Accounting and Reporting System (STARS) report of February 29, 2000, the FHSO had unliquidated obligations in FY 1999 valued at \$8.8 million, of which about \$4.3 million was for the purchase of hospital material. Of the \$4.3 million, we reviewed 10 unliquidated obligations involving purchase orders of FH material valued at about \$1.9 million. For 8 of the 10 unliquidated obligations, the material was received and the vendor paid in full. One purchase order was canceled, and one was a valid unliquidated obligation (outstanding purchase order). Only \$129,530 of the \$1.9 million was a valid unliquidated obligation. The remaining \$1.8 million were not valid unliquidated obligations because DFAS had already disbursed the funds or the FHSO had canceled the purchase order. We reviewed TAMMIS for the eight items received and found the receipt information accurate.

In addition, the Financial Management Department did not adjust unliquidated obligations when purchase orders were canceled or changed by the Supply Department. During testing of purchase transactions, we judgmentally reviewed 19 purchase orders and found 7 had been canceled. However, the STARS report showed that funds were still obligated (unliquidated) for all seven canceled purchase orders, although some dated back to March and May 1999. The remaining 12 purchase orders were valid. According to Financial Management Department personnel, they did not use TAMMIS to identify canceled or changed purchase orders although it is the approved system for management and operations of all activities at the FHSO.

Reasons for Unreliable Unliquidated Obligations. Nonreceipt of disbursing information from the DFAS disbursing station was the primary cause of unreliable unliquidated obligations. However, the scope of this audit focused on the need for the FHSO to make required reviews of obligations. The absence of effective management control procedures to fully implement the DoD requirement to review obligations contributed to the unreliability of unliquidated obligations.

Disbursing Information. Payments for the eight purchase orders that had been received and paid were not shown in the DFAS STARS report for the FHSO. We notified DFAS that the payment information was not shown in the STARS report and learned that the DFAS operating location, San Diego, was not liquidating obligated funds as disbursements were made. According to personnel at DFAS, San Diego, corrective action to verify that unliquidated obligation balances are accurate for FHSO transactions has been taken.

FHSO Review Procedures. Although the FHSO cannot correct systemic DFAS problems, the FHSO can improve management of its unliquidated obligations by establishing management controls requiring the Financial Management Department reconcile unliquidated obligations with DFAS payments and with TAMMIS cancellation, purchase order, and receipt information. According to FHSO Financial Management Department personnel, they had never performed a review of unliquidated obligations. Periodically performing reconciliations will help the FHSO identify inaccuracies with its unliquidated obligations and make adjustments as necessary. Periodic reconciliations will reduce the risk of the FHSO inaccurately portraying its financial position and will help identify funds available to satisfy other requirements. For example, had the Financial Management Department reconciled

obligations with TAMMIS and identified canceled or changed purchase orders, funds could have been deobligated and used for other requirements, such as shortages in FH 20 and FH 21 discussed in finding B.

FHSO Actions. In April 2000, the FHSO began a comprehensive reconciliation of all outstanding unliquidated obligations.

Recommendations, Management Comments, and Audit Response

C. We recommend that the Commanding Officer, Fleet Hospital Support Office, develop management controls that require the Financial Management Department to reconcile unliquidated obligations in the Standard Accounting and Reporting System report with Defense Finance and Accounting Service payments and with Theater Army Medical Management Information System cancellation, purchase order, and receipt information three times a year.

Management Comments. The Navy concurred with the recommendation. The FHSO completed a comprehensive reconciliation of all outstanding unliquidated obligations in the STARS report with DFAS and with TAMMIS cancellations, purchase order, and receipt information. In the future, reconciliations will be conducted monthly and canceled requisitions will be deobligated. Responsibilities and procedures are expected to be documented in FHSO Instruction 7301.1, "Material Obligation Validation Program," by September 30, 2000.

Audit Response. The Navy comments are fully responsive. We commend the Commanding Officer, FHSO, for the quick action taken to reconcile and resolve unliquidated obligations.

Appendix A. Audit Process

Scope and Methodology

We evaluated FH management at Cheatham Annex. The audit covered inventory management issues, the rebuild process, and management of unliquidated obligations. We reviewed documents and reports covering the period from March 10, 1997, through April 20, 2000. We did not review annual physical inventory reports because the contractors did not perform annual physical inventories. We performed limited testing of the wall-to-wall inventory during the audit. We did not use statistical sampling procedures for this audit. The items reviewed were judgmentally selected, and the results cannot be projected.

Inventory Management Issues. The review of inventory management issues focused on inventory accountability and identification of excess material.

Inventory Accountability. To review inventory accountability, we sampled inventory records to physical locations, and physical locations to inventory records. Additionally, we attempted to reconcile Cheatham Annex inventory records with records from Alameda. We limited our work in these areas because the new Commanding Officer, FHSO, recognized the inventory integrity issues, halted the rebuild process, and conducted a wall-to-wall inventory to correct TAMMIS balances. We also did a limited verification of the wall-to-wall inventory.

Inventory Samples. We judgmentally selected 36 containers from the TAMMIS container report and verified that the containers were actually on hand at the locations recorded in TAMMIS. Based on concerns of FHSO personnel, we also selected 17 containers located in an outside storage area and searched TAMMIS to determine if the containers were properly recorded. Further, we had the contractor open 2 of the 17 containers and we were able to identify about \$280,000 of medical material not recorded in TAMMIS. We estimated the \$280,000 by obtaining the stock number from the container packing list and applying the dollar value for the stock number from TAMMIS. We did not verify the contents of the remaining 15 containers because of the ongoing wall-to-wall inventory.

Reconciliation of Cheatham Annex and Alameda Inventory Records. We attempted to reconcile FH inventory reported on hand at Alameda, as of August 1997, to the inventory on hand at Cheatham Annex as of September 1999. The two balances could not be reconciled because the FHSO replaced information systems when they moved, and we could not obtain accurate or complete historical reports on purchase orders, issues, and receipts.

Limited Verification of the Wall-to-Wall Inventory. To determine the accuracy of the wall-to-wall inventory as requested by the Commanding Officer, we judgmentally selected 467 of 4,500 stock numbers between February 18 and March 14, 2000, and found the inventory results reported in TAMMIS were accurate.

Excess Material in Inventory. To determine excess inventory, we reviewed the September 1999 TAMMIS reports for FH rebuild requirements, on-hand inventory balances, cross-linkages, and deleted items. We also reviewed the Defense Reutilization and Marketing Office excess inventory reports for FY 1998 and FY 1999. We also verified that 20 line items of excess inventory, valued at about \$890,000, were properly accounted for by the FHSO and recipients. Additionally, we reviewed civil engineering support equipment documentation, April 29, 1998, supporting the transfer to the disposal activity of 24 ambulances valued at about \$900,000. We found the 24 ambulances were properly disposed of and accounted for by the recipient.

Rebuild Process. To determine FH material shortages for the FH 20 and FH 21, we reviewed the FHPO memorandum of July 12, 1999, and stock status reports as of February 2, 2000. We attempted to determine why the shortages existed by reviewing TAMMIS and actual inventory balances. A total of 2,600 purchase orders valued at about \$21.8 million were issued during FY 1999. We judgmentally selected 30 purchase orders valued at about \$4.4 million from the FY 1999 TAMMIS Requisitions Report, December 7, 1999. Of the 30 purchase orders sampled, 19 were for medical equipment, and the remaining 11 were for services. We followed up on the status of 19 purchase orders by comparing them to actual receipts with the TAMMIS exception reports.

Management of Unliquidated Obligations. Because we found seven incorrect unliquidated obligations during our review of receipts processing, we further tested the management of unliquidated obligations. Specifically, we judgmentally selected 10 unliquidated obligations valued at about \$1.9 million of the \$8.8 million reported on the FY 1999 Active Document Listing in STARS as of February 29, 2000.

DoD-Wide Corporate-Level Coverage. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal and subordinate performance goal:

FY 2000 DoD Corporate Level Goal 2: Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(00-DoD-2) Subordinate Performance Goal 2.3:** Streamline the DoD infrastructure by redesigning the Department's support structure and pursuing business practice reforms. **(00-DoD-2.3)**

Use of Computer-Processed Data. We relied on computer-processed data contained in TAMMIS. We obtained data or reports from TAMMIS to evaluate control over physical inventory management, FH shortages, medical asset dispositions, and supply operations at the FHSO. Although TAMMIS reports were not reliable, after the FHSO completed the wall-to-wall inventory in April 2000 and after it made changes to the shortage reports, we were able to obtain reliable data as the basis for our report.

Audit Type, Dates, and Standards. We performed this program audit from October 1999 through May 2000 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and the contractor responsible for performing the rebuild and warehousing functions. Further details are available upon request.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate adequacy of the controls.

Scope of Review of Management Control Program. We reviewed the adequacy of the FHSO management controls over inventory accountability, hospital rebuild process, and purchase orders and unliquidated obligations. We reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified material management control weaknesses for the FHSO as defined by DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996. FHSO management controls for inventory accountability were not adequate to ensure that general inventory was properly managed. Additionally, management controls over the hospital rebuild process did not ensure that fielded FHs included all key items. Finally, management controls over purchase orders and unliquidated obligations were not adequate to ensure timely liquidation of outstanding obligations. Recommendations A.1., B.1., and C., if implemented, will improve FHSO inventory management, hospital rebuild process, and management of unliquidated obligations.

A copy of this report will be provided to the senior official responsible for management controls in the office of the Chief, Bureau of Medicine and Surgery.

Adequacy of Management's Self-Evaluation. FHSO officials identified inventory accountability, purchase orders, and unliquidated obligations as assessable units. However, FHSO officials did not identify the material management control weaknesses identified by the audit for inventory accountability because the FHSO evaluation covered a much broader area. No evaluation was performed for purchase orders and unliquidated obligations because the units were given a low vulnerability assessment. FHSO officials did not identify the hospital rebuild process as an assessable unit and, therefore, did not identify or report the material management control weaknesses identified by the report.

Appendix B. Prior Coverage

During the last 5 years, the Inspector General, DoD, and the Army Audit Agency have audited DEPMEDS. The Inspector General, DoD, issued four related reports and the Army Audit Agency issued one report. Unrestricted Inspector General, DoD, reports can be accessed over the Internet at <http://www.dodig.osd.mil/audit/reports>.

Inspector General

Inspector General, DoD, Report No. D-2000-048, "Year 2000 Compliance Status of Biomedical Devices Included in Navy Fleet Hospitals," December 3, 1999.

Inspector General, DoD, Report No. 99-222, "Air Force Frankfurt Contingency Hospital" (U), July 23, 1999.

Inspector General, DoD, Report No. 98-163, "Accountability and Inventory Levels of Air Force Medical War Reserve Material at Fort Worth, Texas," June 24, 1998.

Inspector General, DoD, Report No. 97-054, "Equipment Pre-Positioned Afloat," December 20, 1996.

Department of the Army

Army Audit Agency Report No. AA 98-99, "Sustainment Requirements for the Army Prepositioned Stock Program," February 23, 1998.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics)
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Health Affairs)

Joint Staff

Director, Joint Staff

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Naval Inspector General
Chief, Bureau of Medicine and Surgery
Auditor General, Department of the Navy
Commanding Officer, Fleet Hospital Program Office
Commanding Officer, Fleet Hospital Support Office

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Unified Commands

Commander in Chief, U.S. European Command
Commander in Chief, U.S. Pacific Command
Commander in Chief, U.S. Central Command

Other Defense Agency

Director, Defense Finance and Accounting Service

Non-Defense Federal Organizations

Office of Management and Budget
General Accounting Office
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Technical Information Center

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International
Relations, Committee on Government Reform

Department of the Navy Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: DoD Audit Report on the Inventory Management of Navy
Fleet Hospitals by Fleet Hospital Support Office,
Cheatham Annex, Virginia (Number D1999LF-0031) -
ACTION MEMORANDUM

Thank you for the opportunity to respond to the DoD Audit Report, Number D1999LF-0031, concerning the Inventory Management of Navy Fleet Hospitals by the Fleet Hospital Support Office, Cheatham Annex, Virginia. The Department of the Navy (DON) has reviewed Attachment 1 and concurs with the findings and recommendations of the subject report. Attachment 2 provides comments and an updated status on each recommendation.

DON's point of contact is Mr. Rick Barnish, MED-833, at the Bureau of Medicine and Surgery, and can be reached at (202) 762-3336.

A handwritten signature in cursive script, reading "Karen S. Heath", is positioned above the typed name and title.

Karen S. Heath
Principal Deputy
Assistant Secretary of the Navy
(Manpower and Reserve Affairs)

Attachments:

1. DoD Audit Report (D1999LF-0031) of 16 Jun 00
2. Comments and Recommendations



DEPARTMENT OF THE NAVY
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
2000 NAVY PENTAGON
WASHINGTON, D.C. 20350-2000

IN REPLY REFER TO

7500
Ser 931D1/060-00
15 August 2000

THIRD ENDORSEMENT on FHSO Williamsburg memo 7500 Ser 00/106 of 02 Aug 00

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

From: Chief of Naval Operations (N931)

To: Department of Defense Office of the Inspector General

Subj: DOD AUDIT REPORT ON THE INVENTORY MANAGEMENT OF NAVY FLEET
HOSPITALS BY FLEET HOSPITAL SUPPORT OFFICE, CHEATHAM ANNEX,
VIRGINIA (NUMBER D1999LF-0031)

1. Forwarded with concurrence.

S. C. RICE
Director, Medical Resources,
Plans and Policy Branch

Copy to:
BUMED (MED-83)
CO, NAVMEDLOGCOM
CO, FHSO



DEPARTMENT OF THE NAVY
BUREAU OF MEDICINE AND SURGERY
2300 E STREET NW
WASHINGTON DC 20372-5300

IN REPLY REFER TO

7500
Ser 08/2000U810019
14 August 2000


SECOND ENDORSEMENT on FHSO Williamsburg memo 7500 Ser 00/106
of 02 Aug 00

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

From: Chief Bureau of Medicine and Surgery
To: Department of Defense Office of the Inspector General
Via: Chief of Naval Operations (N931)

Subj: DOD AUDIT REPORT ON THE INVENTORY MANAGEMENT OF NAVY
FLEET HOSPITALS BY FLEET HOSPITAL SUPPORT OFFICE,
CHEATHAM ANNEX, VIRGINIA (NUMBER D199LF-0031)

- 1 Forwarded with concurrence.
2. For further information, my point of contact is Mr. Rick Barnish who can be reached at (202) 762-3336 or email: JRBarnish@us.med.navy.mil.


J.A. MOOS
By direction

Copy to:
CO, NAVMEDLOGCOM
CO, FHSO



DEPARTMENT OF THE NAVY

NAVAL MEDICAL LOGISTICS COMMAND
FORT DETRICK, MARYLAND 21702-5015

IN REPLY REFER TO:

7500

Ser 00/029-00

07 Aug 00

FIRST ENDORSEMENT on FHSO Williamsburg memo 7500 Ser 00/106
of 02 Aug 00

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

From: Commanding Officer, Naval Medical Logistics Command

Via: (1) Chief, Bureau of Medicine and Surgery (MED-83)

(2) Chief of Naval Operations (N931)

Subj: DOD AUDIT REPORT ON THE INVENTORY MANAGEMENT OF NAVY
FLEET HOSPITALS BY FLEET HOSPITAL SUPPORT OFFICE,
CHEATHAM ANNEX, VIRGINIA (NUMBER D199LF-0031)

1. Forwarded with concurrence.


G. H. CRITTENDEN

Copy to:
CO. FHSO



DEPARTMENT OF THE NAVY
FLEET HOSPITAL SUPPORT OFFICE
108 SANDA AVENUE
WILLIAMSBURG, VA 23185

IN REPLY REFER TO:

7500
Ser 00/106
02 Aug 00

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

From: Commanding Officer, Fleet Hospital Support Office
Via: (1) Commanding Officer, Naval Medical Logistics Command
(2) Chief, Bureau of Medicine and Surgery (MED-83)
(3) Chief of Naval Operations (N931)

Subj: DOD AUDIT REPORT ON THE INVENTORY MANAGEMENT OF NAVY
FLEET HOSPITALS BY FLEET HOSPITAL SUPPORT OFFICE,
CHEATHAM ANNEX, VIRGINIA (NUMBER D1999LF-0031)

Thank you for the opportunity to respond to the DoD Audit Report, Number D1999LF-0031, concerning the inventory management of Navy Fleet Hospitals by the Fleet Hospital Support Office, Cheatham Annex, Virginia. We concur with all the findings and recommendations of the subject report. The following comments are offered.

Finding A: Fleet Hospital Inventory Management:

Recommendation 1a: Establish management controls to ensure accountability of recorded inventory, by performing annual and periodic wall-to-wall inventories.

Comment: FHSO has established management control procedures to ensure that the warehouse services contractor, DYNCORP, timely and accurately performs required periodic inventories and associated causative research. In accordance with Navy Inventory Integrity Procedures (NAVSUP P-723), DYNCORP conducts weekly physical inventory and location audits following an audit plan that requires each item contained in the stock record file to be inventoried within a year. FHSO QA personnel verify these audits, conduct daily independent inventory and location spot checks, and conduct 100% validation of receipts. Upon completion of the final contract option, FHSO will ensure that DYNCORP conducts the end of contract inventory of all material and reconcile any discrepancies, as required by Federal Acquisition Regulation Part 45.508.1. Responsibilities and procedures are being documented in FHSOINST 4440.2. FHSO

Subj: DOD AUDIT REPORT ON THE INVENTORY MANAGEMENT OF NAVY
FLEET HOSPITALS BY FLEET HOSPITAL SUPPORT OFFICE,
CHEATHAM ANNEX, VIRGINIA (NUMBER D1999LF-0031)

Inventory Control, with final publication expected by 30
September 2000. This action is considered completed.

Recommendation 1b: Establish management controls to ensure
excess inventory is identified in Theater Army Medical
Management Information System (TAMMIS) and appropriate disposal
action taken.

Comment: FHSO has established a continuous excessing
program to ensure that materials no longer required for future
SLEPs will be excessed in a timely fashion. This program
includes procedures to routinely coordinate design and supply-
related changes with the TAMMIS stock record file. Utilizing
this information, excess material is identified during the
download phase of fleet hospital SLEPs and expended at that
time. Two safeguard procedures have also been established: an
automated report is run monthly to identify all material with
inventory balances in excess of current requirements, and a
demand survey will be conducted at the completion of each SLEP.
Responsibilities and procedures are being documented in FHSOINST
4440.2, FHSO Inventory Control, with final publication expected
by 30 September 2000. This action is considered completed.

Recommendation 2: Perform causative research on discrepancies
identified by the wall-to-wall inventory and prepare DD200, "The
Financial Liability Investigation of Property Loss," as
required.

Comment: FHSO is currently conducting causative research
and expects to be completed by mid-September 2000. As discussed
in the audit report, although individual gains and losses are
being identified and validated, inventory reconciliation will
not be possible due to the insufficient audit trail resulting
from the change in information systems. We expect that this
action will be completed no later than 30 September 2000, upon
completion of causative research and preparation of a DD 200
reflecting the total gain or loss and documented by listings of
individual gains and losses.

Subj: DOD AUDIT REPORT ON THE INVENTORY MANAGEMENT OF NAVY
FLEET HOSPITALS BY FLEET HOSPITAL SUPPORT OFFICE,
CHEATHAM ANNEX, VIRGINIA (NUMBER D1999LF-0031)

Finding B: Hospital Rebuild Process:

Recommendation 1: Establish management controls to ensure that Fleet Hospitals are not fielded with shortages. At a minimum, the management controls should include written standard operating procedures that:

a. Specify clearly who is responsible for identifying and resolving shortages in Fleet Hospitals and how they will perform their function.

b. Require Supply Division personnel to reconcile unfilled user requisitions on a periodic basis and report the status of the requisitions to personnel responsible for resolving shortages.

c. Require Fleet Hospital Support Office managers to verify that Theater Army Medical Management Information Systems Shortage reports are accurate.

d. Describe how Theater Army Medical Management Information Systems will be used to manage the service life extension program (SLEP).

Comment: FHSO remains committed to completing FH SLEPs on-time and 100% complete. Towards that end, we have established a formal SLEP production planning and management program that coordinates all departmental and contractor activities. To date, 100% (178 of 541) of the IOLs completed during the ongoing FH 22 SLEP have been completed at 100%, with matching data integrity. SLEP program responsibilities and procedures are being documented in FHSOINST 6780.1, Fleet Hospital Service Life Extension Program, with final publication expected by 30 September 2000. This action is considered completed.

Recommendation 2. Perform mini-service life extension programs and ship follow-on containers with material to satisfy shortages in Fleet Hospitals 20 and 21.

Subj: DOD AUDIT REPORT ON THE INVENTORY MANAGEMENT OF NAVY
FLEET HOSPITALS BY FLEET HOSPITAL SUPPORT OFFICE,
CHEATHAM ANNEX, VIRGINIA (NUMBER D1999LF-0031)

Comment: FHSO has validated shortages for FH 20 and 21. These shortages have been fully funded for FY-00, will be ordered in August 2000, and assembled and packed when all material has been received. This action is considered completed.

Finding C: Reconciliation of Unliquidated Obligations:

Recommendation. Recommend that the Commanding Officer, Fleet Hospital Support Office, develop management controls that require the Financial Management Department to reconcile unliquidated obligations in the Standard Accounting and Reporting System (STARS) Report with Defense Finance and Accounting Service (DFAS) payments and with Theater Army Medical Management Information Systems (TAMMIS) cancellations, purchase order, and receipt information, three times a year.

Comment: Fleet Hospital Support Office completed a comprehensive reconciliation of all outstanding unliquidated obligations in STARS against TAMMIS and DFAS information. DFAS personnel report that they have successfully resolved the systematic problem causing the inaccurate reporting of information on disbursements. FHSO and DFAS, San Diego are working to resolve \$1.1M in validated FY98-99 receipts that, per DFAS, San Diego, have not yet been billed. FHSO has implemented management controls to ensure that unliquidated obligations are reconciled with TAMMIS and DFAS data monthly and that all canceled requisitions are de-obligated. Responsibilities and procedures are being documented in FHSOINST 7301.1, Material Obligation Validation Program with final publication expected by 30 September 2000. This action is considered completed.

Commanding Officer, FHSO continues to take aggressive action to improve weaknesses in material management controls. In addition to the actions reflected above, key performance metrics, including those measuring all business functions addressed above, are being developed and reviewed weekly by the Commanding Officer and senior management. Additionally, the Commanding Officer has directed revitalization of the Management Control Program required by DoD Directive 5010.38 and defined by DoD Instruction 5010.40. Finally, FHSO has begun efforts towards gaining ISO 9001 certification, through which we expect

Subj: DOD AUDIT REPORT ON THE INVENTORY MANAGEMENT OF NAVY
FLEET HOSPITALS BY FLEET HOSPITAL SUPPORT OFFICE,
CHEATHAM ANNEX, VIRGINIA (NUMBER D1999LF-0031)

to identify and implement all appropriate management controls
We anticipate obtaining ISO 9001 certification in July 2001.

FHSO appreciates the superb efforts made by the Department of Defense, Inspector General office on our behalf. Through your steadfast guidance and support, we have succeeded in a nearly complete turn-around in a remarkably short time. We would like to make special note of your support in helping us identify excess material for turn-in. In addition to properly reutilizing this material throughout the Department of Defense, the financial credit returned to FHSO through this initiative was, and in the future will continue to be, promptly invested in critical readiness and modernization initiatives in direct support of the war fighter's requirements



E. J. HORRES

Audit Team Members

The Readiness and Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report.

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INTERNET DOCUMENT INFORMATION FORM

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Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
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D. Currently Applicable Classification Level: Unclassified

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